

First Quarter Results | 2014
THREE MONTHS ENDED SEPTEMBER 30, 2013

“Our mission is to be the pre-eminent wealth management firm in Canada serving high net worth investors.”

Gluskin Sheff + Associates Inc. is one of Canada's pre-eminent wealth management firms. Founded in 1984 and focused primarily on high net worth private clients, we are dedicated to meeting the needs of our clients by delivering strong, risk-adjusted investment returns and the highest level of personalized client service. With a solid track record of success, a strong reputation in the private client market and an experienced management team, we are confident that our passion for excellence will generate enhanced value for our shareholders over the long term.

Report to Shareholders

SECOND QUARTER ENDED SEPTEMBER 30, 2013

Assets Under Management increased by \$182 million to \$6.3 billion at September 30, 2013, or up 3.0% from June 30, 2013. The increase in AUM is attributable to positive investment performance of \$193 million, partially offset by net withdrawals of \$11 million. The net withdrawals resulted from \$84 million in net additions from high net worth clients, offset by \$95 million in net withdrawals from institutional clients.

Base Management Fees for the three months ended September 30, 2013, increased by \$1.8 million to \$20.3 million from \$18.5 million for the three months ended September 30, 2012. Performance Fees were \$2.1 million for the three months ended September 30, 2013, compared to \$1.1 million for the three months ended September 30, 2012.

Net Income was \$8.3 million, or \$0.29 per share on a basic basis (\$0.28 per share on a diluted basis) for the three months ended September 30, 2013, compared with \$5.9 million or \$0.21 per share on a basic (\$0.20 per share on a diluted basis) for the three months ended September 30, 2012.

For the three months ended September 30, 2013, Base EBITDA decreased year-over-year by \$1.5 million to \$7.5 million from \$9.0 million as the current quarter's Base EBITDA was reduced by \$3.75 million in respect of the special RSU award granted in the quarter, which more than offset an increase in Base Management Fees.

We are pleased to have delivered good absolute returns for our clients in the quarter with low volatility. We believe we are well positioned for what lies ahead, having emphasized fixed income strategies that minimize interest rate risk and having increased exposure to U.S. and European equities. As we look forward to the calendar year's final quarter, we are optimistic for a strong finish to what has been a rewarding year thus far.

The Company remains in a strong financial position, which will allow us to continue to explore ways to better serve existing clients and attract new ones.



GERALD SHEFF
Co-Founder & Chairman
November 7, 2013



JEREMY FREEDMAN
President & Chief Executive Officer
November 7, 2013

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for the three months ended September 30, 2013, is provided as of November 7, 2013. It should be read in conjunction with the unaudited interim financial statements, including the notes thereto, of Gluskin Sheff + Associates Inc. for the three months ended September 30, 2013, the Audited Financial Statements for the years ended June 30, 2013 and 2012, and the related MD&As, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless the context indicates or requires otherwise, the terms "Gluskin Sheff," "Company," "Firm," "we," "us" and "our" mean Gluskin Sheff + Associates Inc. Unless otherwise indicated, all dollar amounts in this MD&A are expressed in Canadian dollars.

Financial results, including related historical comparatives, contained in this MD&A, unless otherwise specified herein, are based on the unaudited interim financial statements for the three months ended September 30, 2013. The Canadian dollar is our functional and reporting currency for purposes of preparing the Company's unaudited interim financial statements. Certain totals, subtotals and percentages may not reconcile due to rounding. Certain comparative figures have been reclassified to conform with the current period's presentation.

FORWARD-LOOKING STATEMENTS

This MD&A may contain forward-looking statements with respect to expected financial performance, strategy and business conditions. The words "believe," "anticipate," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would," "aim" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management. Forward-looking statements involve significant known and unknown risks and uncertainties. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Factors which may cause such differences include, but are not limited to, general economic and market conditions, investment performance, global and domestic financial markets, the competitive industry environment, legislative and regulatory changes, technological developments, catastrophic events and other business risks. The reader is cautioned against undue reliance on these forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management

currently believes to be reasonable assumptions, we cannot assure that actual results, performance or achievements will be consistent with such statements. The forward-looking statements are made as of the date of this MD&A and will only be updated or revised where required by applicable laws.

NON-IFRS FINANCIAL MEASURES

We measure our business using a number of performance indicators that are not measurements in accordance with IFRS and should not be considered as an alternative to Net Income or any other measure of performance under IFRS. Non-IFRS financial measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

Assets Under Management

Any reference to Assets Under Management (“AUM”) is only to our paying AUM, on which we charge base management fees (“Base Management Fees”) or performance fees (“Performance Fees”). Our non-paying AUM are charged either no or nominal fees. This measure may not be comparable to similar measures presented by other issuers. We monitor the level of our AUM as it drives our Base Management Fees.

Investment Performance

Investment performance is a key driver of AUM and is at the very core of what we do. The amount of Performance Fees and Base Management Fees we earn is related to both the level of our AUM and our investment performance.

Net Additions or Net Withdrawals

AUM fluctuates due to the combination of investment performance and net additions or net withdrawals (gross additions net of gross withdrawals). The resulting AUM is the basis on which Base Management Fees are charged and to which Performance Fees may be applied.

EBITDA

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) is a common measure used in the financial industry by management, investors and investment analysts in understanding and comparing results. Our method of calculating EBITDA may differ from the methods used by other issuers and, accordingly, our EBITDA may not be comparable to similarly-titled measures used by other issuers.

Base EBITDA

Base EBITDA is EBITDA excluding Performance Fees and Performance Fee related expenses, post-retirement obligations, stock options expense and amortization of restricted share unit (“RSU”) awards, minus the dollar value of base bonus RSUs estimated to be awarded in respect of the current year and special RSUs awarded in the current year.

Adjusted EBITDA

Adjusted EBITDA is Base EBITDA adjusted for Performance Fees, and Performance Fee bonus and other expenses. The Performance Fee related bonus includes the dollar value of RSUs estimated to be awarded in respect of Performance Fees of the current year and excludes amortization of prior years’ Performance Fee RSUs.

Average AUM

Average AUM for a period is the simple average of the ending AUM for each month in that period.

Base Management Fee Percentage

Base Management Fee Percentage is calculated as the Base Management Fee for the period as a percentage of Average AUM for the period.

OVERVIEW

Gluskin Sheff + Associates Inc. is a wealth management firm whose primary business focus is managing assets on a discretionary basis for high net worth private clients. We also manage assets for a number of charitable foundations and institutions. We do not consider these different types of clients to be distinct reportable business segments for accounting purposes as we operate a single business with one fundamental philosophy.

Our revenues are derived mainly from Base Management Fees, calculated as a percentage of AUM, and Performance Fees, calculated annually as a percentage of the appreciation (net of Base Management Fees and other expenses) in each of our segregated accounts and private pooled fund vehicles above pre-specified rates of return, or rates of return adjusted for a deficiency carried forward from the prior year, as applicable. Our Performance Fees are calculated annually at June 30 and December 31, depending upon the performance year-end of our segregated accounts and pooled fund vehicles. The Company may also earn other income or incur losses from its cash balances and its investments, if any, which include seeded portfolios, and from the economic research subscriptions.

AUM are impacted by net additions or net withdrawals of client capital, as well as by investment performance. We seek to enhance our ability to attract and retain such

assets by delivering solid investment returns together with a consistently high level of client service.

Gluskin Sheff's expenses include salaries and benefits (which contain a bonus component that may fluctuate significantly based upon the overall performance of the Company and the amount of Performance Fees earned), business development, general and administrative and occupancy expenses, as well as the amortization of property and equipment and amortization of intangibles. These expenses are offset in part by reimbursements of certain operating expenses by the Company's pooled fund vehicles.

FINANCIAL HIGHLIGHTS

For the three months ended September 30, 2013:

- AUM increased by \$182 million to \$6.3 billion at September 30, 2013, or 3.0% from June 30, 2013. The increase in AUM is attributable to positive investment performance of \$193 million partially offset by net withdrawals of \$11 million. The net withdrawals resulted from \$84 million in net additions from high net worth clients, offset by \$95 million in net withdrawals from institutional clients.
- AUM increased by \$702 million to \$6.3 billion at September 30, 2013, or 12.4% from September 30, 2012. The increase in AUM is attributable to net additions of \$81 million and positive investment performance of \$621 million.
- Base Management Fees increased to \$20.3 million this quarter versus \$18.5 million in the year ago quarter as average AUM for the quarter increased to \$6.2 billion from \$5.6 billion for the same quarter last year. The Base Management Fee Percentage declined to 1.29% from 1.32% for the same period last year.
- Base EBITDA was \$7.5 million for the three months ended September 30, 2013, compared with \$9.0 million in the year ago quarter. The current quarter's Base EBITDA was reduced by \$3.75 million, which represents the \$5.0 million special RSU award granted in the quarter, net of the related bonus effect.
- Performance Fees were \$2.1 million for the three months ended September 30, 2013, compared with \$1.1 million in the year ago quarter.
- Net income for the three months ended September 30, 2013, was \$8.3 million, and represented earnings per share, basic and diluted, of \$0.29 and \$0.28, respectively. Net income for the three months ended September 30, 2012, was \$5.9 million, and represented earnings per share, basic and diluted, of \$0.21 and \$0.20, respectively.

MARKET OUTLOOK AND BUSINESS ENVIRONMENT

Earlier this year, our team came to the view that we had likely seen the low in long-term interest rates in both Canada and the United States and that a new secular trend of rising interest rates was upon us. This is an extremely important change of

view that has many implications for the way we invest on behalf of our clients. In recent months, we have seen more signs of a global economic recovery, driven by the major economies of the U.S., the Eurozone, Japan and China. Equity markets generally traded higher during the third quarter, while broad fixed income markets traded lower. Our team has continued to proactively adjust our recommended asset mix to grow and protect our clients' capital in light of these important changes in the capital markets. We are pleased that we have continued to deliver strong risk-adjusted returns.

We continue to employ a diversified asset mix that can benefit from the themes in which we have the strongest conviction, including income-oriented strategies and credit alternative strategies that can minimize interest rate risk, geographic diversification through our U.S. and international strategies and disciplined, well-managed long/short hedge funds that can tactically hedge out market volatility and generate returns that are not highly correlated to the broader equity markets.

SUMMARY FINANCIAL INFORMATION

(\$ in thousands of Canadian dollars, except per share amounts and Assets Under Management)

	3 MONTHS ENDED SEP 30, 2013	3 MONTHS ENDED SEP 30, 2012
ASSETS UNDER MANAGEMENT		
<i>(\$ in millions)</i>		
<i>Assets Under Management – Beginning of period</i>	\$ 6,160	\$ 5,452
Net withdrawals	(11)	(48)
Investment performance	193	236
<i>Assets Under Management – End of period</i>	<u>\$ 6,342</u>	<u>\$ 5,640</u>
	AS AT SEP 30, 2013	AS AT JUN 30, 2013
	AS AT SEP 30, 2012	
BALANCE SHEET INFORMATION		
<i>Total assets</i>	<u>\$72,151</u>	<u>\$129,706</u>
	3 MONTHS ENDED SEP 30, 2013	3 MONTHS ENDED SEP 30, 2012
INCOME STATEMENT INFORMATION		
Income		
Base management fees	\$ 20,279	\$ 18,468
Performance fees	2,124	1,096
Other income	696	750
	<u>23,099</u>	<u>20,314</u>
Operating expenses	(8,185)	(8,896)
Provision for bonus pool	(2,871)	(2,480)
EBITDA	12,043	8,938
Amortization	(716)	(808)
Provision for income taxes	(3,028)	(2,184)
Net income	<u>\$ 8,299</u>	<u>\$ 5,946</u>
Basic earnings per share	\$ 0.29	\$ 0.21
Diluted earnings per share	\$ 0.28	\$ 0.20
SELECTED ADJUSTED FINANCIAL INFORMATION		
EBITDA	\$ 12,043	\$ 8,938
Provision for bonus pool	2,871	2,480
Post-retirement obligations	118	95
Stock option expense	620	205
EBITDA before compensation adjustment	<u>15,652</u>	<u>11,718</u>
Base cash bonus	(2,502)	(2,260)
Base RSU bonus	(625)	(251)
RSU amortization	874	911
Special RSU award ¹	(3,750)	—
Performance fees	(2,124)	(1,096)
<i>Base EBITDA</i>	<u>7,525</u>	<u>9,022</u>
Performance fees	2,124	1,096
Performance fee cash bonus	(421)	(220)
Performance fee RSU bonus	(105)	(24)
<i>Adjusted EBITDA</i>	<u>\$ 9,123</u>	<u>\$ 9,874</u>

Notes:

1. Represents the \$5.0 million special RSU award granted to certain key employees in the quarter, net of the related bonus effect.

RESULTS OF OPERATIONS

Overall Performance

For the three months ended September 30, 2013, the Company earned \$0.29 and \$0.28 per share, on a basic and diluted basis respectively, compared with \$0.21 and \$0.20 per share, on a basic and diluted basis, respectively, for the same period last year as net income increased by \$2.4 million to \$8.3 million from \$5.9 million. Base EBITDA for the three months ended September 30, 2013, decreased by \$1.5 million or 17% to \$7.5 million from \$9.0 million for the same period last year. The current quarter's Base EBITDA was reduced by \$3.75 million, in respect of the \$5.0 million special RSU award granted in the quarter, net of the related bonus effect, which more than offset higher base management fees. Adjusted EBITDA for the three months ended September 30, 2013, decreased by \$0.8 million or 8% to \$9.1 million versus \$9.9 million for the same period last year. This was the result of the decrease in Base EBITDA of \$1.5 million, partially offset by increase in Performance Fees, net of related bonus expense, of \$0.7 million.

Income

Total income for the three months ended September 30, 2013, was \$23.1 million versus \$20.3 million in the year ago quarter.

Base Management Fees for the three months ended September 30, 2013, increased year-over-year by \$1.8 million or 10% to \$20.3 million from \$18.5 million as average AUM increased \$0.6 billion or 12% to \$6.2 billion over the same period. Average Base Management Fee Percentage decreased to 1.29% from 1.32%.

Performance Fees for the three months ended September 30, 2013, increased year-over-year by \$1.0 million to \$2.1 million from \$1.1 million.

Other income for the three months ended September 30, 2013, was relatively unchanged at \$0.7 million.

Expenses

Total expenses for the three months ended September 30, 2013, decreased year-over-year by \$0.4 million or 3% to \$11.8 million from \$12.2 million.

Salaries and benefits expense for the three months ended September 30, 2013, increased year-over-year by \$1.0 million or 13% to \$8.6 million from \$7.6 million. The increase is primarily due to an increase in stock option expense of \$0.4 million for adjustments made to forfeiture rates used in the amortization of stock options. Base salaries increased by \$0.2 million and accrued cash bonus expense was higher by \$0.4 million due to higher base business net income, higher Performance Fees earned and an increase in the percentage of Performance Fees allocated to the bonus pool to 40% from 25%, partially offset by a change in the average percentage estimate for the cash component of the bonus, as described below.

A portion of bonuses is paid in the form of RSUs and a portion is paid in cash. RSUs granted in relation to bonus awards for a specified year are granted early in the fiscal year following the year to which the bonus relates, at which point the cost of the RSUs are reflected in compensation expense using a graded vesting methodology over the three year vesting period. Therefore, the accrual for the current year's bonus award in any year reflects only the cash component of the total bonus awarded. However, the total bonus expense comprises the cash component of the current year's bonus award and the amortization of RSUs granted in respect of bonus awards from prior years.

The ratio of the bonuses paid in RSUs versus cash is dependent on the amount of the bonus awarded to each employee, and increases with the size of the award. The total annual bonus amounts are not known until the end of the fiscal year. Therefore, the calculation of cash bonuses accrued in each interim quarter of the Company's fiscal year requires an estimate of the percentage that will be paid in cash. The average percentage estimate for the cash component used in calculating the first fiscal quarter's bonus was 80% (September 30, 2012 – 90%).

Business development expenses for the three months ended September 30, 2013, increased year-over-year by \$0.1 million or 13% to \$0.6 million from \$0.5 million. The increase was attributed primarily to an increase in marketing costs of \$0.2 million offset in part by a decrease in donations of \$0.1 million.

General and administrative expenses for the three months ended September 30, 2013, decreased year-over-year by \$1.4 million or 45% to \$1.8 million from \$3.2 million. The decrease was attributed primarily to a decline in information technology expenses of \$1.3 million due primarily to an over accrual of system development costs in prior periods. Office services and telecommunications expense decreased by \$0.1 million, due to continued vendor reviews and renegotiations, and professional fees declined by \$0.2 million, due to a decline in legal fees. These decreases were offset by an increase in regulatory and public company expenses of \$0.3 million, due to expenses related to the secondary offering of the Company's Subordinate Voting Shares.

Occupancy costs for the three months ended September 30, 2013, remained relatively unchanged.

Amortization of property, equipment and intangibles for the three months ended September 30, 2013, decreased by \$0.1 million over the prior year quarter to \$0.7 million from \$0.8 million due to the disposal of leaseholds and equipment associated with the move of our Calgary office to a different location in the last quarter of fiscal 2013.

EBITDA, Base EBITDA, Adjusted EBITDA and Net Income

This information is set out in the table of Summary Financial Information, which reconciles EBITDA to net income.

For the three months ended September 30, 2013, EBITDA increased year-over-year by \$3.1 million to \$12.0 million from \$8.9 million.

Base EBITDA eliminates the effect of Performance Fees, Performance Fee related expenses, post-retirement obligations, stock options expense and amortization of RSU awards, and deducts the dollar value of the expected base RSU bonus to be awarded in respect of the current year and special RSUs awarded in the current year. For the three months ended September 30, 2013, Base EBITDA decreased year-over-year by \$1.5 million or 17% to \$7.5 million from \$9.0 million as the current quarter's Base EBITDA was reduced by \$3.75 million in relation to the special RSU award granted in the quarter, which more than offset an increase in Base Management Fees.

Adjusted EBITDA for the three months ended September 30, 2013, decreased by \$0.8 million or 8% to \$9.1 million from \$9.9 million, as the decrease in Base EBITDA of \$1.5 million was partially offset by an increase in net Performance Fees earned of \$0.7 million for the three months ended September 30, 2013.

Income before provision for income taxes for the three months ended September 30, 2013, increased year-over-year by \$3.2 million to \$11.3 million from \$8.1 million.

Net income for the three months ended September 30, 2013, increased year-over-year by \$2.4 million to \$8.3 million from \$5.9 million.

The Company's effective tax rate for the current quarter decreased to 26.7% from 26.9% in the same quarter last year. This decrease was primarily due to an increase in expenses deductible for tax purposes but not for accounting purposes, offset in part by an increase in non-deductible expenses for tax purposes.

Accounts Receivable

The Company's accounts receivable as at September 30, 2013, and June 30, 2013, consisted primarily of amounts attributable to Base Management Fees and Performance Fees.

Dividends

On September 3, 2013, the Company declared a regular dividend of \$0.175 per equity share for the quarter ended June 30, 2013, and a special dividend of \$1.40 per equity share, relating to both the Performance Fees earned during the six months ended June 30, 2013, net of related bonus expense and income tax, and to a distribution of excess cash over and above what is considered necessary to meet known commitments and maintain adequate reserves. This dividend was paid on September 23, 2013, to shareholders of record at the close of business on September 13, 2013.

On November 7, 2013, the Company declared a regular dividend of \$0.20 per equity share for the quarter ended September 30, 2013. This dividend will be paid on December 3, 2013, to shareholders of record at the close of business on November 20, 2013.

Since going public in May 2006, the total regular quarterly and special dividends are as follows:

	REGULAR QUARTERLY DIVIDENDS	SPECIAL DIVIDENDS	TOTAL
Paid – since inception to September 30, 2013	\$ 3.69	\$5.62	\$ 9.31
Declared – in the second quarter of fiscal 2014	<u>0.20</u>	<u>—</u>	<u>0.20</u>
TOTAL PER EQUITY SHARE	<u>3.89</u>	<u>5.62</u>	<u>9.51</u>

SUMMARY OF QUARTERLY RESULTS

The following quarterly financial information was taken from the Company's unaudited quarterly reports to shareholders. This information is consistent with the annual audited financial statements of the Company.

SUMMARY FINANCIAL INFORMATION FOR THE LAST EIGHT QUARTERS

(\$ in thousands of Canadian dollars, except per share amounts and Assets Under Management)

	AS AT DEC 31, 2011	AS AT MAR 31, 2012	AS AT JUN 30, 2012	AS AT SEP 30, 2012	AS AT DEC 31, 2012	AS AT MAR 31, 2013	AS AT JUN 30, 2013	AS AT SEP 30, 2013
Assets Under Management <i>(\$ in millions)</i>	<u>\$ 5,279</u>	<u>\$ 5,473</u>	<u>\$ 5,452</u>	<u>\$ 5,640</u>	<u>\$ 5,725</u>	<u>\$ 6,100</u>	<u>\$ 6,160</u>	<u>\$ 6,342</u>
	3 MONTHS ENDED DEC 31, 2011	3 MONTHS ENDED MAR 31, 2012	3 MONTHS ENDED JUN 30, 2012	3 MONTHS ENDED SEP 30, 2012	3 MONTHS ENDED DEC 31, 2012	3 MONTHS ENDED MAR 31, 2013	3 MONTHS ENDED JUN 30, 2013	3 MONTHS ENDED SEP 30, 2013

INCOME STATEMENT INFORMATION

Income								
Base management fees	\$ 18,373	\$ 18,127	\$ 18,051	\$18,468	\$ 18,747	\$19,244	\$ 20,361	\$ 20,279
Performance fees	1,060	433	2,208	1,096	32,441	1,568	9,858	2,124
Other income	1,264	946	735	750	851	822	811	696
	<u>\$20,697</u>	<u>\$19,506</u>	<u>\$20,994</u>	<u>\$20,314</u>	<u>\$52,039</u>	<u>\$21,634</u>	<u>\$31,030</u>	<u>\$23,099</u>
Base EBITDA	8,207	7,092	3,502	9,022	9,608	9,453	9,828	7,525
Adjusted EBITDA	8,951	7,314	5,169	9,874	33,981	10,652	14,227	9,123
Net income	4,697	4,977	2,313	5,946	24,724	6,749	11,105	8,299
Basic earnings per share	\$ 0.16	\$ 0.17	\$ 0.08	\$ 0.21	\$ 0.85	\$ 0.23	\$ 0.38	\$ 0.29
Diluted earnings per share	\$ 0.16	\$ 0.17	\$ 0.08	\$ 0.20	\$ 0.85	\$ 0.23	\$ 0.38	\$ 0.28

Performance Fees contribute significantly to the variability of income quarter-over-quarter since, from a timing perspective, they are recognized primarily in June (for certain pooled fund vehicles and segregated accounts) and December (for other pooled fund vehicles) and because the level of Performance Fees is dependent on the investment performance of the underlying portfolios.

SUMMARY OF PORTFOLIO AUM AND PERFORMANCE

For the period ended September 30, 2013
(\$ in millions of Canadian dollars)

Annualized Rates of Return[†]

INVESTMENT STRATEGIES	INCEPTION DATE	AUM \$	CALENDAR YEAR-TO-					SINCE INCEPTION
			DATE ⁹ %	1 YEAR %	3 YEAR %	5 YEAR %	10 YEAR %	
Equity²								
Premium Income ⁴	JUL 2001	1,250	9.8	12.3	9.8	9.3	11.2	13.5
U.S. Premium Income ⁵	AUG 2011	950	20.2	24.5	—	—	—	21.1
Canadian Equity ⁴	JAN 1991	182	7.7	9.1	2.9	3.5	8.1	11.8
U.S. Equity ⁴	FEB 1986	215	20.2	20.1	12.7	8.1	8.9	9.5
Resource ^{3, 4}	AUG 2009	107	1.3	3.5	2.4	—	—	7.2
International ^{3, 5}	AUG 2008	351	10.9	19.2	3.1	5.7	—	4.0
Growth ⁴	JUL 1984	5	15.9	17.5	8.6	5.6	8.6	11.0
		<u>3,060</u>						
Equity Alternative⁶								
Multi-Strategy ⁵	JAN 2009	382	3.6	5.8	2.1	—	—	3.4
Income Long/Short ^{3, 5}	JUL 2004	345	3.3	5.1	3.9	6.9	—	13.3
Focused Long/Short ^{3, 5}	JAN 2007	190	4.3	9.4	8.6	9.5	—	13.8
		<u>917</u>						
Credit Alternative & Fixed Income								
Credit Arbitrage ⁵	JAN 2009	373	4.1	6.8	4.9	—	—	7.6
Enhanced Credit Arbitrage ⁵	DEC 2008	94	5.9	10.4	7.2	—	—	10.9
Tactical Fixed Income ^{7, 8}	JAN 2013	672	—	—	—	—	—	2.4
Enhanced Yield ^{3, 5}	FEB 2009	249	4.2	7.1	4.8	—	—	6.9
Enhanced Bond ⁵	DEC 2008	250	3.1	5.2	4.5	—	—	6.6
		<u>1,638</u>						
Institutional & Special Mandates¹⁰		<u>727</u>						
Assets Under Management		<u><u>6,342</u></u>						

Notes:

- Past performance is not necessarily indicative of future returns. Performance is presented net of fees and expenses and assumes reinvestment of all dividends.
- Where, for a particular portfolio model, we manage both a pooled fund and segregated accounts, we have measured the performance of whichever has been in operation the longest to represent the overall performance of the portfolio model. AUM reflects all Assets Under Management, both in pooled fund vehicles and segregated accounts.
- The performance presented includes the historical returns of the incubated versions of each respective portfolio, prior to it being offered to Gluskin Sheff clients.
- The returns presented for this strategy represent the returns of a composite of segregated portfolios. The returns of the associated fund are not included in the composite returns.
- The returns presented are those of the GS+A fund, Series A.
- The Multi-Strategy Fund and Multi-Strategy Trust are portfolios that invest in a combination of Gluskin Sheff's individual alternative long/short portfolios. As such, to avoid double-counting, AUM held within one of the aforementioned portfolios is excluded from the AUM figures provided for the underlying/individual long/short portfolios.
- The returns presented are those of the GS+A Tactical Fixed Income Fund, Series A.
- Since inception return is non-annualized.
- Calendar year-to-date returns are non-annualized.
- Includes institutional mandates managed primarily in accordance with our Canadian Equity portfolio model (\$297 million), our Premium Income portfolio model (\$260 million) and our Growth portfolio model (\$20 million), and private client mandates managed primarily in accordance with a combination of our Canadian Equity and Premium Income portfolio models (\$4 million), our Founders portfolio model (\$30 million), our U.S. Equity portfolio model (\$19 million), our Enhanced Bond portfolio model (\$60 million), and other special mandates (\$28 million). All numbers are approximate.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures (“DC&P”) are designed to provide reasonable assurance that all information required to be disclosed by the Company is recorded, processed, summarized and reported within required time periods and that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management of the Company has ensured that internal controls over DC&P have been designed to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer by others, and information required to be disclosed by the Company in its interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Control over Financial Reporting

Management of the Company has ensured that internal controls over financial reporting (“ICFR”) have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes in ICFR in the most recent quarter that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Management of the Company has evaluated the design of its DC&P and ICFR (as defined under National Instrument 52-109) as of September, 2013, under the supervision of the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the DC&P and ICFR were properly designed as of September 30, 2013.

LIQUIDITY AND CAPITAL RESOURCES

The Company generates positive cash flow from operations and has limited requirements for long-term capital due to the nature of its business. We believe that our Base Management Fees and current cash resources will continue to be sufficient to satisfy our ongoing operational needs.

There are no significant regulatory capital requirements for the Company.

During the three months ended September 30, 2013, there were no significant net acquisitions of property and equipment (September 30, 2012 – \$0.1 million). Acquisitions of intangibles amounted to approximately \$0.2 million (September 30, 2012 – \$0.2 million).

During the three months ended September 30, 2013, the Company paid \$45,944 of dividends (September 30, 2013 – \$nil)

Gluskin Sheff's current liabilities are in the normal course of the Company's operations and are payable within one year. Payment will be funded through cash provided by operating activities. Gluskin Sheff has no debt.

Aside from funding normal working capital requirements, Gluskin Sheff expects to fund new business initiatives and corporate development from its cash reserves and positive cash flow.

The Company has no off-balance sheet financial arrangements and no material contractual obligations other than those described in the Company's Annual Audited Financial Statements as at June 30, 2013.

Gluskin Sheff's policies and procedures related to the management of capital are described in note 10 of the Company's September 30, 2013, unaudited interim financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A summary of significant accounting policies underlying the financial statements is presented in note 1 of the Company's unaudited interim financial statements for the three months ended September 30, 2013. Accounting policies are an integral part of our financial statements, which are prepared in accordance with IFRS.

Understanding these policies is a key factor in understanding our reported results of operations and financial position. Certain critical accounting policies require us to make estimates and assumptions that affect the amount of assets, liabilities, revenues and expenses reported in the financial statements. Due to their nature, estimates involve judgments based on available information. Therefore, actual results or amounts could differ from estimates and the difference could have a material impact on the financial statements. Management has made the following critical accounting estimates:

Fair value of Financial Instruments

When the fair value of financial assets and financial liabilities recorded in the balance sheets cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The valuation of financial instruments is described in more detail in note 2 of the Company's unaudited interim financial statements for the three months ended September 30, 2013.

Stock Option Plan

The Company has a stock option plan and measures the cost of the stock option plan by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for the stock option plan requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, the future stock price of the Company and estimated forfeiture rates. The forfeiture rates are based on best available estimates at the time of grant, and the Company will revise those estimates, if necessary, if subsequent information indicates that the number of options expected to vest differs from previous estimates.

Post-Retirement Obligations

In fiscal 2010, the Company reached an agreement with its Co-Founders, Messrs. Ira Gluskin and Gerald Sheff, following their departures from their respective roles as President & Chief Investment Officer and as Chief Executive Officer. The agreement provides for a lump sum retirement payment to each of \$1.5 million at the end of their respective five year transition periods, or on their death, and fixed annual payments to each of \$250,000 plus certain employment benefits commencing at the end of their respective transition periods for the balance of their natural lives. Estimating the fair value of the post-retirement obligation requires estimates including discount rates, life expectancy, benefits, perquisites and annual inflation assumptions. The Company engaged a third-party actuary to compute the fair value of the post-retirement obligation. Additional information, including amounts accrued and expensed in the current quarter, is provided in note 5 of the Company's unaudited interim financial statements for the three months ended September 30, 2013.

Executive Loan Program

The Company provides financial guarantees for full recourse loans made to eligible employees by a third party institution at market interest rates to acquire shares of the Company on the open market. The acquired shares serve as collateral against the employee loans. Where the employee loan principal outstanding exceeds the fair value of the collateral, management judgment is required to determine the present value of the expected payments relating to the contingent liability.

Bonus Expense

The ratio of bonuses to be paid in RSUs versus cash is dependent on the amount of the bonus awarded to each employee and increases with the size of the award. The total annual bonus amounts are not known until the end of the fiscal year, and therefore the actual percentages to be paid in RSUs versus cash will not be known

with certainty until such time. Therefore, the calculation of cash bonuses accrued in each interim quarter of the Company's fiscal year requires an estimate of the percentage that will be paid in cash.

Impairment of Non-Financial Assets

Finite life intangible assets and property and equipment are reviewed for impairment whenever there is an indication that the assets may be impaired. Intangible assets not yet ready for use are tested for impairment annually or whenever there is an indication that the intangible assets may be impaired. The values associated with intangibles involve estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives.

Deferred Tax Assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. In addition, deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

CHANGES IN ACCOUNTING POLICIES

There were no changes to the Company's accounting policies from those reported in the Audited Annual Financial Statements for the year ended June 30, 2013.

FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, short-term investments, restricted cash, accounts receivable, income taxes recoverable, accounts payable and accrued liabilities, income taxes payable and accrued bonuses. The carrying value of cash, short-term investments, restricted cash, accounts receivable, income taxes recoverable, accounts payable and accrued liabilities, income taxes payable and accrued bonuses approximate their relevant fair value due to their short-term nature. DSUs, which are included in long-term liabilities, are marked-to-market, with unrealized gains or losses being recognized in general and administrative expenses in the statement of income. Short-term investments are recorded at fair value using quotations from independent third-party pricing sources. At September 30, 2013, the Company held \$17.8 million in cash (June 30, 2013 – \$22.0 million), \$11.5 million in short-term investments (June 30, 2013 – \$54.8 million) and \$4.6 million in restricted

cash (June 30, 2013 – \$4.6 million). Securities owned, if any, and certain short-term investments are held pursuant to the Company’s strategy of seeding new portfolio models, some of which the Company may eventually introduce as part of its investment strategies. The Company’s marketable securities have been designated as held-for-trading and are recorded at fair value using quotations from independent third party pricing sources, with realized and unrealized gains or losses being recognized in other income in the statement of income. The use of financial instruments exposes the Company to risks such as market risk, credit risk, liquidity risk and concentration risk. Refer to note 17 of the Company’s September 30, 2013, unaudited interim financial statements for a more detailed analysis of risk exposures and sensitivity analyses for certain risks.

MANAGING RISKS

Gluskin Sheff is exposed to a number of risks that are inherent in the investment management industry.

The following risks are noted, and they are described in greater detail in the Company’s Annual Information Form.

Risk factors related to the Company:

- Changes in the securities markets
- Poor investment performance
- Loss of key employees
- Changes in the investment management industry
- Competitive pressures
- Failure in our ability to manage risks in our portfolio models
- Rapid growth or decline in our AUM
- Litigation risks
- Employee errors or misconduct
- Failure to implement effective information security policies, procedures and capabilities
- Failure to implement effective and efficient technologies
- Failure to develop effective business resiliency plans and information technology recovery plans
- Failure to comply with government regulations
- Failure to maintain adequate insurance coverage on favorable economic terms

The foregoing risk factors are mitigated to the extent possible and practical from a cost and perceived benefit perspective by senior management’s direct involvement in the day-to-day operation of the business. Members of senior management meet regularly to address business issues, consider new risks to the business and chart the direction of the Company in terms of new product development, marketing initiatives and strategic direction. Management has regular access to information

deemed critical to the ongoing monitoring of the Company's performance and key business metrics in order to consider a change in operational plans or strategic direction as considered appropriate in the circumstances.

The Company also maintains an appropriate system of internal controls and procedures to safeguard assets, control expenses and ensure that financial reporting is accurate and reliable.

The Company believes confidentiality is essential to the success of the business and strives to consistently maintain the highest standards of trust, integrity and professionalism. Account information is kept under strict control in compliance with all applicable laws, and physical, procedural and electronic safeguards are maintained in order to protect this information from access by unauthorized parties.

The Company's investment performance is monitored on an ongoing basis, including a review of trends and activity in the capital markets. The Company has a disciplined investment approach, which is the foundation of its investment philosophy and methodology for investing in capital markets.

Finally, the Company maintains appropriate insurance coverage for general business liability risks. Insurance coverage is reviewed at least annually, or whenever there is a significant change in the Company's operations or risk profile.

CORPORATE GOVERNANCE

The objective of good corporate governance is to enhance value for all stakeholders over the long term by aligning the interests of our Company with the interest of our stakeholders.

The Board of Directors (the "Board") and the Company's management have designed our corporate governance policies and practices to ensure we are focused on our responsibilities to our stakeholders and on creating long-term shareholder value. Our practices and policies comply with regulations and guidelines established by Canadian securities regulators. We continuously monitor all proposed new rules and modify our policies and practices to meet any additional requirements. The Company has adopted the following significant governance practices:

- As at September 30, 2013, the Board consisted of nine directors, six of whom were independent. The independent directors are not employees of the Company or parties to material contracts with the Company and are only entitled to directors' fees. The Company believes that the size and composition of the Board are well suited to the circumstances of the Company.
- Herbert Solway, QC, serves as the Lead Director on the Board.
- The independent directors meet without management present at the end of each regularly scheduled board meeting. All Board members can and do interact with management as situations arise.
- For all independent directors, there is a minimum share ownership requirement of 6,000 Subordinate Voting Shares and one-half of all directors' fees are taken in

the form of DSUs, ensuring alignment of their interests with those of shareholders.

- The memberships of the Audit Committee and the Compensation, Nominating and Governance Committee, sub-committees reporting to the Board, are exclusively composed of independent directors.
- The Audit Committee is chaired by Robert S. Weiss, FCPA, FCA, who has extensive financial experience, as do the other Audit Committee members. This Committee assists the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process and the system of internal controls over financial reporting.
- The Compensation, Nominating and Governance Committee is chaired by Paul Beeston, CM. This Committee is responsible for administering the Company's compensation policy and for developing the Company's approach to corporate governance issues.

RELATED PARTY TRANSACTIONS

There were no changes to the nature and extent of related party transactions entered into by the Company in the three months ended September 30, 2013. For further information, refer to note 4 of the Company's September 30, 2013, unaudited interim financial statements.

SHARE CAPITAL

During the three months ended September 30, 2013, the number of outstanding Subordinated Voting Shares increased due to the exercise of stock options and due to the conversion of Multiple Voting Shares to Subordinated Voting Shares. The Subordinate Voting Shares and Multiple Voting Shares rank *pari passu* with respect of the payment of dividends, return of capital and distribution of assets in the event of liquidation, dissolution or winding up the Company. Each Multiple Voting Share is convertible into one Subordinate Voting Share. Subordinate Voting Shares carry one vote per share, while Multiple Voting Shares carry 15 votes per share. Holders of Subordinate Voting Shares are entitled to elect one-third of the directors and holders of Multiple Voting Shares are entitled to elect two-thirds of the directors.

On October 16, 2013, the Co-Founders completed their previously announced secondary offering (the "Offering") of 6,400,000 Subordinate Voting Shares. Concurrent with the closing of the Offering, all Multiple Voting Shares were converted to Subordinate Voting Shares on a one-for-one basis, leaving the Company with only one class of issued and outstanding equity shares, and entitling the holders thereof to vote on all matters requiring shareholder approval. As at November 7, 2013, there were 29,507,411 Subordinate Voting Shares issued and outstanding.

Beginning in fiscal 2011, the number of issued and outstanding shares includes shares acquired in the open market by a trust established by the Company for the benefit of the RSU plan participants, which is described in note 8 to the unaudited interim financial statements for the three months ended September 30, 2013.

The number of outstanding stock options as at September 30, 2013 were 1,138,000, of which 852,000 were exercisable.

OTHER INFORMATION

Additional information relating to Gluskin Sheff + Associates Inc. is also available on SEDAR at www.sedar.com.

INTERIM BALANCE SHEETS (UNAUDITED)

(\$ in thousands of Canadian dollars)

	AS AT SEP 30, 2013	AS AT JUN 30, 2013
ASSETS		
Current assets		
Cash	\$ 17,790	\$ 21,989
Short-term investments (note 2)	11,466	54,815
Accounts receivable (note 4)	9,122	18,937
Income taxes recoverable (note 11)	553	—
Prepaid expenses and other assets	803	943
	<u>39,734</u>	<u>96,684</u>
Non-current assets		
Restricted cash (note 5 and 8)	4,601	4,577
Property and equipment	22,118	22,636
Intangible assets	1,697	1,726
Deferred income taxes, net (note 11)	4,001	4,083
	<u>32,417</u>	<u>33,022</u>
Total assets	<u>\$ 72,151</u>	<u>\$129,706</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 3, 4, 8 and 12)	\$ 18,326	\$ 8,910
Income taxes payable (note 11)	—	3,271
Accrued bonuses (note 12)	2,923	19,067
	<u>21,249</u>	<u>31,248</u>
Non-current liabilities		
Long-term liabilities (note 8)	1,677	1,585
Post-retirement obligations (note 4 and 5)	11,937	11,819
	<u>13,614</u>	<u>13,404</u>
	<u>\$ 34,863</u>	<u>\$ 44,652</u>
SHAREHOLDERS' EQUITY		
Share capital (note 6)	\$ 12,786	\$ 11,706
Treasury stock (note 7)	(14,612)	(5,166)
Contributed surplus	13,428	13,834
Retained earnings	25,686	64,680
	<u>37,288</u>	<u>85,054</u>
Total liabilities and shareholders' equity	<u>\$ 72,151</u>	<u>\$129,706</u>

The accompanying notes are an integral part of these financial statements.

INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(\$ in thousands of Canadian dollars, except per share amounts)

	3 MONTHS ENDED SEP 30, 2013	3 MONTHS ENDED SEP 30, 2012
INCOME		
Base management fees (note 4)	\$20,279	\$18,468
Performance fees (note 4)	2,124	1,096
Other income (note 3)	696	750
	<u>23,099</u>	<u>20,314</u>
EXPENSES		
Salaries and benefits (notes 5, 8 and 12)	8,596	7,575
Reimbursements from pooled funds (note 4)	(872)	(902)
Business development (note 13)	604	533
General and administrative (note 8 and 14)	1,803	3,249
Occupancy (note 15)	925	921
Amortization of property and equipment	532	659
Amortization of intangible assets	184	149
	<u>11,772</u>	<u>12,184</u>
Income before provision for income taxes	\$ 11,327	\$ 8,130
Provision for (recovery of) income taxes (note 11)		
Current income taxes	2,746	1,946
Deferred income taxes	282	238
	<u>3,028</u>	<u>2,184</u>
Net income and comprehensive income attributable to shareholders	\$ 8,299	\$ 5,946
Net earnings per common share attributable to shareholders:		
Basic earnings per share (note 9)	\$ 0.29	\$ 0.21
Diluted earnings per share (note 9)	\$ 0.28	\$ 0.20

The accompanying notes are an integral part of these financial statements.

INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(\$ in thousands of Canadian dollars)

	3 MONTHS ENDED SEP 30, 2013				
	SHARE CAPITAL	TREASURY STOCK	CONTRIBUTED SURPLUS	RETAINED EARNINGS	TOTAL EQUITY
Beginning of period	\$11,706	\$ (5,166)	\$13,834	\$ 64,680	\$ 85,054
Net income and comprehensive income attributable to shareholders	—	—	—	8,299	8,299
Amortization of restricted share units (note 8)	—	—	874	—	874
Amortization of stock options (note 8)	—	—	620	—	620
Purchase of treasury stock (note 7 and 8)	—	(11,400)	—	—	(11,400)
Release of treasury stock (note 7 and 8)	—	1,954	—	—	1,954
Exercise of stock options (note 6 and 8)	1,080	—	(708)	—	372
Vesting of restricted share units (note 8)	—	—	(2,742)	—	(2,742)
Deferred tax asset for dividends-in-kind (note 11)	—	—	201	—	201
Special dividend (note 16)	—	—	1,199	(42,038)	(40,839)
Quarterly dividend (note 16)	—	—	150	(5,255)	(5,105)
End of period	\$12,786	\$ (14,612)	\$13,428	\$ 25,686	\$ 37,288

	3 MONTHS ENDED SEP 30, 2012				
	SHARE CAPITAL	TREASURY STOCK	CONTRIBUTED SURPLUS	RETAINED EARNINGS	TOTAL EQUITY
Beginning of period	\$ 8,757	\$ (6,603)	\$14,314	\$ 57,145	\$ 73,613
Net income and comprehensive income attributable to shareholders	—	—	—	5,946	5,946
Amortization of restricted share units (note 8)	—	—	920	—	920
Forfeiture of restricted share units (note 8)	—	—	(9)	—	(9)
Amortization of stock options (note 8)	—	—	259	—	259
Forfeiture of stock options (note 8)	—	—	(54)	—	(54)
Purchase of treasury stock (note 7 and 8)	—	(688)	—	—	(688)
Release of treasury stock (note 7 and 8)	—	81	—	—	81
Vesting of restricted share units (note 8)	—	—	(2,532)	—	(2,532)
Deferred tax asset for dividends-in-kind (note 11)	—	—	101	—	101
Special dividend (note 16)	—	—	19	(1,768)	(1,749)
Quarterly dividend (note 16)	—	—	55	(4,791)	(4,736)
End of period	\$ 8,757	\$ (7,210)	\$13,073	\$ 56,532	\$ 71,152

The accompanying notes are an integral part of these financial statements.

INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

(\$ in thousands of Canadian dollars)

	3 MONTHS ENDED SEP 30, 2013	3 MONTHS ENDED SEP 30, 2012
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	\$ 8,299	\$ 5,946
Adjustments for non-cash items		
Amortization of property and equipment	532	659
Amortization of intangible assets	184	149
Post-retirement obligations (note 5)	118	95
Deferred income taxes (note 11)	283	238
Deferred share units (note 8)	141	159
Restricted share units (note 8)	874	911
Stock option expense (note 8)	620	205
Net interest income	(159)	(119)
	<u>10,982</u>	<u>8,243</u>
Changes in non-cash working capital items		
Restricted cash (note 5 and 8)	(24)	(1)
Accounts receivable (note 4)	9,815	670
Prepaid expenses and other assets	140	211
Income taxes recoverable (note 11)	(553)	(1,080)
Accounts payable and accrued liabilities (note 4)	8,579	(1,061)
Income taxes payable (note 11)	(3,271)	—
Accrued bonuses (note 12)	(16,144)	(5,243)
	<u>(1,458)</u>	<u>(6,504)</u>
Cash provided by operating activities	<u>9,434</u>	<u>1,739</u>
INVESTING ACTIVITIES		
Net purchases of property and equipment	(14)	(67)
Net purchases of intangibles	(155)	(169)
(Purchases) Sale of short-term investments	43,349	(8,993)
Net interest income (loss)	159	119
Cash used in investing activities	<u>43,339</u>	<u>(9,110)</u>
FINANCING ACTIVITIES		
Dividends paid (note 16)	(45,944)	—
Acquisition of treasury stock (note 7)	—	(688)
Payable for acquisition of treasury stock (note 7)	(11,400)	—
Exercise of stock options (note 8)	372	—
Cash used in financing activities	<u>(56,972)</u>	<u>(688)</u>
Increase (decrease) in cash during the period	(4,199)	(8,059)
Cash – beginning of period	21,989	18,727
Cash – end of period	<u>\$ 17,790</u>	<u>\$10,668</u>

The accompanying notes are an integral part of these financial statements.

Notes to Unaudited Interim Financial Statements

*For the three months ended September 30, 2013 and 2012
(\$ in thousands in Canadian dollars, except per share amounts)*

NATURE OF BUSINESS AND ORGANIZATION

Gluskin Sheff + Associates Inc. (the “Company”) provides discretionary investment management services to high net worth private clients and institutional investors. The Company was incorporated in 1984 under the Ontario Business Corporations Act. The Company provides investment management services to clients in Canada and abroad. The Company is listed on the Toronto Stock Exchange (“TSX”) and trades under the symbol “GS”. Its registered office is at Bay Adelaide Centre, 333 Bay Street, Suite 5100, Toronto, Ontario, M5H 2R2. As at September 30, 2013, and September 30, 2012, the Company was controlled by Messrs. Ira Gluskin and Gerald Sheff, Co-Founders.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These unaudited interim financial statements were prepared by management in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of unaudited interim financial statements. Certain comparative figures have been reclassified to conform with the current period’s presentation.

The unaudited interim financial statements of the Company for the three months ended September 30, 2013, were authorized for issue by a resolution of the Board of Directors on November 7, 2013.

Basis of Presentation

These unaudited interim financial statements have been prepared on a going concern basis and historical cost basis, except for held-for-trading financial instruments, post-retirement obligations and Deferred Share Units (“DSU”), which have been measured at fair value.

These unaudited interim financial statements are presented in Canadian dollars, which is the Company’s functional currency. In these notes to the unaudited interim financial statements, all dollar amounts are stated in thousands, unless otherwise noted. Per share amounts and option exercise prices are stated in dollars and cents.

Principles of Consolidation

The unaudited interim financial statements include the accounts of the Company and a trust (the “Trust”) established for the participants of the Company’s Restricted Share Unit (“RSU”) Plan. The RSU plan is described in note 7 and 8. The Trust may hold shares of the Company purchased in the open market to hedge, in whole or in part, the Company’s potential economic exposure that could arise on outstanding RSUs due to fluctuations in the Company’s share price. The Company consolidates the Trust in these unaudited interim financial statements, and accounts for the shares owned by the Trust as treasury stock. The Trust was established on December 1, 2010, and the unaudited interim financial statements of the Trust are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances, income and expenses resulting from intercompany transactions are eliminated.

Significant Accounting Judgments and Estimates

These unaudited interim financial statements are prepared by management in accordance with IFRS, as issued by the IASB. The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the amounts of income and expenses during the reporting periods. Actual results could differ from those estimates and the difference could be material. Management believes that the potential significant areas where judgment is necessarily applied are those which relate to:

(i) Fair value of Financial Instruments

When the fair value of financial assets and financial liabilities recorded in the balance sheets cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The valuation of financial instruments is described in more detail in note 2.

(ii) *Stock Option Plan*

The Company has a stock option plan and measures the cost of the stock option plan by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for the stock option plan requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and estimated forfeiture rates. The forfeiture rates are based on best available estimates at the time of grant, and the Company revises those estimates, if necessary, if subsequent information indicates that the number of options expected to vest differs from previous estimates.

(iii) *Post-Retirement Obligations*

The Company reached an agreement with its Co-Founders, Messrs. Ira Gluskin and Gerald Sheff, following their departures from their respective roles as President & Chief Investment Officer and as Chief Executive Officer as described in note 5. Estimating the fair value of the post-retirement obligation requires estimates including discount rates, life expectancy, benefits, perquisites and annual inflation assumptions. The Company engaged a third-party actuary to compute the fair value of the post-retirement obligation.

(iv) *Executive Loan Program*

The Company provides financial guarantees for full recourse loans made to eligible employees by a third party institution at market interest rates to acquire shares of the Company on the open market. The acquired shares serve as collateral against the employee loans. Where the employee loan principal outstanding exceeds the fair value of the collateral, management judgment is required to determine the present value of the expected payments relating to the contingent liability.

(v) *Bonus Expense*

Commencing in fiscal 2011, a portion of the bonus pool is paid in RSUs. The ratio of bonuses to be paid in RSUs versus cash is dependent on the amount of the bonus awarded to each employee and increases with the size of the award. The total annual bonus amounts are not known until the end of the fiscal year, and therefore the actual percentages to be paid in RSUs versus cash will not be known with certainty until such time. Therefore, the calculation of cash bonuses accrued in each interim

quarter of the Company's fiscal year requires an estimate of the percentage that will be paid in cash.

(vi) *Impairment of Non-Financial Assets*

Finite life intangible assets and property and equipment are reviewed for impairment whenever there is an indication that the asset may be impaired. Intangible assets not yet ready for use are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The values associated with intangible assets involve estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives.

(vii) *Deferred Tax Assets*

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. In addition, deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Foreign Currency Translation

The unaudited interim financial statements are expressed in Canadian dollars, as the Canadian dollar is the functional currency of the Company.

- Assets, including the fair values of financial assets, and liabilities denominated in foreign currencies are converted into Canadian dollars at the rates of exchange established on each balance sheet date.
- Purchases and sales of assets and liabilities, dividends and interest income denominated in foreign currencies are converted into Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions.
- Realized and unrealized exchange gains (losses) on assets, liabilities and income denominated in foreign currencies are included in the statement of income.

Cash, Short-Term Investments and Restricted Cash

Cash consists of cash on deposit with banks. Short-term investments consist of temporary investments consisting of highly liquid investments which may include

interest bearing notes, treasury bills and bonds with short-term maturities. Restricted cash is cash held in a segregated account, in connection with loan guarantees by the Company in respect of borrowings by certain employees from a Canadian Chartered Bank, pursuant to the Company's Executive Loan Program, as further described in note 8 and amounts held in connection with the terms of the letter of credit, as described further in note 5. The balance held as restricted cash related to the loan guarantees is a proportion of the outstanding executives' borrowings and fluctuates directly with changes in the outstanding loan balances and will become available upon reduction of the outstanding loan balances.

Financial Instruments

Financial assets may be classified as held-for-trading or loans and receivables.

Purchases and sales of financial assets are accounted for on a trade date basis.

Financial liabilities may be classified as held-for-trading or other financial liabilities.

(i) Measurement of Financial Instruments

All financial instruments are initially measured at fair value. After initial recognition, financial instruments classified as held-for-trading are measured:

- at fair value using quoted market prices in an active market; or
- where there is no active market, but the fair value can be reliably measured, using valuation techniques.

All other financial instruments, which include loans and receivables and other financial liabilities, are measured at amortized cost using the effective interest method.

(ii) Changes in Fair Value

Changes in fair value of financial instruments classified as held-for-trading are reflected in the statement of income.

(iii) Classification of the Company's Financial Instruments

The Company's financial instruments are classified as follows:

- Short-term investments, securities owned at fair value and securities sold short are classified as held-for-trading;
- Accounts receivable are classified as loans and receivables. Accounts receivable are initially recognized at the amount expected to be received, less, when material, a discount to reduce the accounts receivable to fair value.

Subsequently, accounts receivable are measured at amortized cost using the effective interest method less a provision for impairment, if any. The provision is the difference between the amortized cost of the accounts receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account; and

- Accounts payable and accrued liabilities, income taxes payable and accrued bonuses are classified as other financial liabilities.

(iv) *Fair Value Hierarchy*

All financial instruments recognized at fair value in the balance sheet are classified into three fair value hierarchy levels as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(v) *Offsetting Financial Assets and Financial Liabilities*

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Property and Equipment

All property and equipment are recorded at cost less accumulated amortization and impairment losses, if any. Property and equipment comprising furniture, office art, computer equipment and automobiles are recorded at cost and are amortized on a declining balance basis at rates from 20% to 30% per annum. Computer software and other assets are being amortized on a straight-line basis at rates of 25% and 33.3% per annum, respectively. Leasehold improvements are amortized on a straight-line basis over a period which includes the initial contractual lease term plus two renewal periods of the respective lease.

Assets' residual values, useful lives and methods of amortization are reviewed at each reporting date, and adjusted prospectively if appropriate.

Intangible Assets

Intangible assets are initially measured at cost. Following the initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses, if any.

The qualifying costs incurred to develop new technology systems are recognized as intangible assets with finite lives. Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets not yet ready for use are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. An intangible asset is considered impaired if the carrying value exceeds the estimated recoverable amount of the intangible asset or Cash Generating Unit ("CGU"), as applicable, and the excess is charged to the statement of operations as an impairment loss. The recoverable amount of intangible assets is based on a discounted cash flow analysis. If in subsequent periods the recoverable amount exceeds carrying value, the prior impairment loss is reversed to bring the carrying amount to the carrying amount (net of amortization) that would have been recognized had no impairment loss been recognized.

Previously capitalized technology development costs are derecognized when it is determined that those costs related to components of the technology that will not, or are unlikely to be put in use by the Company, for where there is no other residual value related thereto.

Intangible assets are being amortized on a straight-line basis at a rate of 25% per annum or declining balance basis at a rate of 30% per annum. The amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed annually. Changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the intangible assets are accounted for by changing the amortization period or method as appropriate, and are treated as changes in accounting estimates.

Intangible assets may include expenditures that have been capitalized in respect of development of systems not yet available for use by the Company. Once the asset is available for use amortization will begin.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the obligation at the reporting date. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Where some or all of the expenditure is expected to be reimbursed by insurance or some other party, and it is virtually certain, the reimbursement is recognized as a separate asset on the balance sheet, and the net amount is recorded in the statement of income. Provisions, if any, are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefits will be required to settle the obligation, the provision is reversed.

Revenue Recognition

Base Management Fees are calculated on various portfolio models by applying an agreed-upon rate to the net asset value of clients assets under management. Base Management Fees are recognized on an accrual basis. Base Management Fees are accrued monthly and are collected on a monthly or quarterly basis.

Performance Fees are calculated by applying an agreed-upon formula to the growth in the net asset value of clients' assets under management and recognized when they are earned, which occurs at the end of each performance year or upon closure of an account or transfer of assets to a different investment model.

Investment income is derived from securities holdings, cash and short-term investments. Investment income is recognized on an accrual basis.

The economic research annual subscription fees received from subscribers are recognized on a monthly pro rata basis and included in other income. The unearned portion, if any, is reflected as unearned revenue and is included in accounts payable and accrued liabilities on the balance sheet.

Management Agreements

The Company has agreements to manage the Company's pooled fund vehicles. Under the terms of the agreements, the Company is responsible for the day-to-day

operation and distribution of these pooled fund vehicles, for which it receives an annual management fee, calculated and payable monthly, by applying an agreed rate to the month-end fair value of each pooled fund vehicle. If certain performance hurdles in the pooled fund vehicles are exceeded, the Company receives an annual performance fee, payable at the end of the performance year or upon redemption of pooled fund units, and calculated by applying an agreed percentage to the appreciation in the asset values in the funds over the performance hurdle.

The Company also recovers expenses incurred on behalf of the pooled fund vehicles relating to the operation of these pooled fund vehicles, which include unitholder administration and fund accounting costs, and trustee fees.

Stock-Based Compensation

The Company has several stock-based compensation plans: the Stock Option plan, the DSU plan, the RSU plan, the Employee Subordinate Voting Share Ownership Plan and the Executive Loan Program, as outlined in note 8.

The Company has used the fair value-based method to account for the cost of stock options awarded under its Stock Option plan. The fair value of the stock options is estimated on the grant date using the Black-Scholes option valuation model. This cost is recognized using graded vesting over five years, as an increase in salaries and benefits and contributed surplus for employees' stock options and as an increase in general and administrative expense and contributed surplus for directors' stock options. When the options are exercised, the contributed surplus amount is credited to share capital in the balance sheet. If cash proceeds are received from options that are exercised, they are also credited to share capital in the balance sheet.

The obligation that results from the award of a DSU is recognized as an expense immediately as vesting occurs on the date of grant. The corresponding amount is included in long-term liabilities on the balance sheet as payment will not be made until the DSU participant is no longer on the Board of Directors. At each reporting date, the obligation is adjusted to fair value based on the Company's stock price and changes in the fair value of the obligation are recognized in the general and administrative expense on the statement of income. DSU participants are granted additional DSUs equal to the amount of dividends that would have been paid to the participant if DSUs held by the participant had been Subordinate Voting Shares. The cost associated with granting these additional DSUs is reflected in general and administrative expense in the statement of income in the period in which the

dividends are paid. The Company has historically made cash payments when settling any DSUs.

The obligation that results from the award of RSUs is recognized using graded vesting or straight-line vesting, depending on the plan terms, over three years, as an increase in salaries and benefits expense and contributed surplus. Each RSU is settled in shares of the Company on the vesting date. RSU participants are granted additional RSUs as a “dividend-in-kind” which is equal to the amounts of dividends that would have been paid to the participant if the RSUs held by the participant had been Subordinate Voting Shares. The cost associated with granting these dividends-in-kind is reflected in contributed surplus and dividend amounts. Each dividend-in-kind is settled in shares of the Company on the vesting date of the underlying RSUs to which they relate. The Trust was established to acquire shares on the open market to hedge, in whole or in part, if considered appropriate, the Company’s economic exposure relating to fluctuations in the market price of the Company’s Subordinate Voting Shares.

The Company’s contributions to the Employee Subordinate Voting Share Ownership Plan are recognized in salaries and benefits expense as they occur.

The Company provides guarantees under the Company’s Executive Loan Program for full recourse loans made to eligible employees by a third party financial institution at market interest rates to acquire shares of the Company on the open market. The acquired shares serve as collateral against the employee loan. Cash, representing a proportion of the outstanding executives’ borrowings under the Executive Loan Program, is held in a segregated cash account and is included in the Company’s restricted cash on the balance sheet. Financial guarantees are recognized at inception as a liability at fair value less directly attributable transaction costs. Subsequently, financial guarantee liabilities are measured at the higher of the initial value and the present value of any expected payment, when a payment under the guarantee has become probable.

Earnings per Share

Basic earnings per share amounts are determined by dividing net income by the weighted average number of shares outstanding during the year excluding shares held in the Trust, which are not considered to be outstanding in the relevant period for accounting purposes. Diluted earnings per share are determined by dividing net income by the total shares outstanding during the year excluding shares held in the Trust, which are not considered to be outstanding in the relevant period for

accounting purposes, assuming that all potentially dilutive common shares, related to the Stock Option and RSU plans as described in note 8, have been issued.

Income Taxes

Income taxes are comprised of current and deferred taxes. Income taxes are recognized in the statement of income except to the extent that they relate to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively. The Company records income tax assets and liabilities for the current and prior year by measuring the amounts expected to be recovered from, or paid to, the taxation authorities.

The current tax payable is based on taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years and for any installments made during the year. Taxable income may differ from income reported on the statements of income in the Company's financial statements since taxable income excludes certain items that are taxable or deductible in other years and also excludes items that are never taxable or deductible for tax purposes.

In general, deferred tax is recognized in respect of temporary differences between the accounting and tax bases of assets and liabilities. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are presented as non-current.

Segment Reporting

Management has determined that the Company has one reportable segment; being its investment management services. This segment reflects the Company's internal financial reporting and performance measurement.

Future Accounting Changes

The IASB issued IFRS 9 *Financial Instruments* ("IFRS 9") that amends the classification and measurement criteria for financial instruments. This is the first phase of a three-phase project to replace IAS 39 *Financial Instruments: Recognition*

and Measurement, the current standard for accounting for financial instruments. The remaining phases of this project are currently under development and include impairment methodology and hedge accounting. The impact of this new standard to the Company will be assessed once the remaining phases of the project are completed. The IASB tentatively deferred the mandatory effective date of IFRS 9 until the issue date of the completed version of IFRS 9 is known.

The IASB issued IFRS 10 *Consolidated Financial Statements* which introduces a single consolidation model for all entities which focuses on control; including the rights an investor has to variable returns resulting from its involvement with the investee and the investor's ability to affect those returns through its power over the investee. The standard is currently not expected to have a significant impact on the Company's financial position or results of operations. However, the Company will continue to monitor the impact as certain situations may arise where the Company will need to consolidate internally seeded pooled fund vehicles. The standard is effective for annual periods beginning on or after January 1, 2013.

The IASB issued IFRS 12 *Disclosures of Interests in Other Entities* that establishes disclosure requirements for interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. The standard is not expected to have an impact on the Company's financial position or results of operations. The Company is currently evaluating the impact of the new standard with respect to any additional disclosures that may be required. The standard is effective for annual periods beginning on or after January 1, 2013.

The IASB issued IFRS 13 *Fair Value Measurement* to consolidate all the fair value measurement and disclosure guidance into a single standard. The new standard establishes a framework for measuring fair value and sets out related disclosure requirements when fair value measurement is required or permitted under other standards. The standard requires more extensive financial statement disclosure but is not expected to have a significant impact on the Company's financial position or results of operations. The standard is effective for annual periods beginning on or after January 1, 2013.

The IASB amended IAS 19 *Employee Benefits* to reflect significant changes to recognition and measurement of defined benefit pension expense and termination benefits and expanded disclosure requirements. The standard is not expected to have

an impact on the Company's financial position or results of operations. The Company is currently evaluating the impact of the new standard with respect to any additional disclosures that may be required. The amended standard is effective for annual periods beginning on or after January 1, 2013.

2. FINANCIAL INSTRUMENTS

Fair Value Measurement

As at September 30, 2013, the Company held \$11,466 in financial assets classified as held-for-trading carried at fair value through the statement of income and comprehensive income (June 30, 2013 – \$54,815). As at September 30, 2013 and 2012, these financial assets were short-term investments and represented level 2 financial assets within the fair value hierarchy. During the three months ended September 30, 2013 and 2012, there were no transfers between any of the fair value hierarchy levels.

Securities Owned and Securities Sold Short

The Company may seed new portfolio models, some of which the Company may introduce as part of its investment strategies offered to clients. The maximum loss that the Company may incur in respect of securities owned is the amount paid to acquire the securities, whereas the amount of the potential gain is unlimited. The maximum gain to the Company in respect of the securities sold short is the proceeds received from entering into the short sale transaction, whereas the amount of the potential loss is unlimited. The fair values of securities owned and sold short vary daily based on general market conditions and matters specific to the issuers of the securities. As at September 30, 2013, there were no securities owned (June 30, 2013 – \$nil) and no securities sold short (June 30, 2013 – \$nil).

3. OTHER INCOME

Details of other income are as follows:

	3 MONTHS ENDED	
	SEP 30, 2013	SEP 30, 2012
Net realized gain on securities owned	\$ 1	\$ —
Economic research subscriptions	644	664
Interest income	159	119
Other loss	<u>(108)</u>	<u>(33)</u>
	<u>\$ 696</u>	<u>\$ 750</u>

The Company's other income includes income from the economic research subscriptions of \$644 (September 30, 2012 – \$664). Related unearned income of \$1,285 (September 30, 2012 – \$1,439) is included in accounts payable and accrued liabilities.

4. RELATED PARTY TRANSACTIONS

Included in the Company's statement of income and comprehensive income for the three months ended September 30, 2013, are Performance Fees of \$2,028 (September 30, 2012 – \$1,086) and Base Management Fees of \$16,589 (September 30, 2012 – \$14,689) earned from the management of the Company's pooled fund vehicles, where the Company generally acts as the trustee, manager, transfer agent and principal distributor. In the case of those pooled fund vehicles that are limited partnerships, an affiliate of the Company is the General Partner.

For the three months ended September 30, 2013, reimbursement of certain operating expenses by the Company's pooled fund vehicles to the Company totaled \$872 (September 30, 2012 – \$902). Expenses related to the operation of the pooled fund vehicles are included in: salaries and benefits, general and administrative, occupancy, and amortization of property and equipment and amortization of intangible assets.

Included in the Company's accounts receivable as at September 30, 2013, is \$7,189 (June 30, 2013 – \$9,995) owing from the Company's pooled fund vehicles. Included in the Company's liabilities as at September 30, 2013, are post-retirement obligations of

\$11,937 (June 30, 2013 – \$11,819) in respect of the Co-Founders, Messrs. Ira Gluskin and Gerald Sheff, as described in note 5.

Included in general and administrative expenses for the three months ended is \$258 (September 30, 2012 – \$266), due to an employee as part of a compensation arrangement related to the economic research subscriptions. The corresponding liability is included in accounts payable and accrued liabilities.

Transactions with related parties and affiliates are conducted at normal market terms and are recorded at fair value.

5. POST-RETIREMENT OBLIGATIONS

During fiscal 2010, the Company reached an agreement with its Co-Founders, Messrs. Ira Gluskin and Gerald Sheff, that governs the terms of their arrangements with the Company following their departures from their respective roles as President & Chief Investment Officer and Chief Executive Officer. Under this agreement, Messrs. Gluskin and Sheff will continue to be employed by the Company for a period of up to five years. The agreement entitles each Co-Founder to a lump sum retirement payment of \$1,500, as at January 1, 2010, for Mr. Gluskin and as at June 30, 2010, for Mr. Sheff, for past years of service, which will be paid at the end of their respective 5 year transition periods being no later than January 1, 2015, for Mr. Gluskin and June 30, 2015, for Mr. Sheff, or on their death. The agreement also provides fixed annual payments to each of \$250 plus certain employment benefits commencing at the end of their respective transition periods for the balance of their natural lives. Such compensation has been established at levels commensurate with the tenure and seniority of the Co-Founders and has been reviewed by the Company's Compensation, Nominating and Governance Committee and the Board's independent directors. The Company has an irrevocable letter of credit for \$3,000 issued by a Schedule I bank in support of its obligations under the post-retirement agreement. As at September 30, 2013, \$3,000 (September 30, 2012 – \$nil) of restricted cash is held in a segregated account, in connection with the terms of the letter of credit.

The post-retirement benefits to be provided to the Co-Founders represent in substance a defined benefit plan, for which the Co-Founders are immediately fully vested. Accordingly, the cumulative cost of these benefits was recognized as an expense in the second quarter of fiscal 2010. The Company expects to fund the future

retirement benefits to the Co-Founders out of operating cash flow as amounts become due and therefore has no current plans to pre-fund these benefits. The Co-Founders will not be required to contribute to the retirement plan.

The expense and increase in the related liability recognized for the three months ended September 30, 2013, was \$118 (September 30, 2012 – \$95) using a discount rate of 4.0% (September 30, 2012 – 3.75%) and an annual inflation assumption of 2.0% (September 30, 2012 – 2.0%) in respect of certain non-fixed-rate benefits included in the transition agreement. This amount is included in salaries and benefits expense. Any future changes in estimates will result in amendments to the liability of the plan in the period in which the changes occur.

Sensitivity Analysis

The following table presents the sensitivity analysis of certain assumptions on the post-retirement obligations and expense.

	CHANGE IN OBLIGATIONS AND EXPENSE
Impact of 1.0% increase in the discount rate	\$(798)
Impact of 1.0% decrease in the discount rate	905
Impact of 1.0% increase in Consumer Price Index	507
Impact of 1.0% decrease in Consumer Price Index	(442)

6. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Subordinate Voting Shares (“SVS”) and Multiple Voting Shares (“MVS”) and an unlimited number of preference shares, issuable in series.

Shares Issued and Outstanding

As at September 30, 2013, there were 18,932,341 SVS, 10,563,500 MVS and no preference shares outstanding (June 30, 2013 – 16,817,061 SVS, 12,611,500 MVS and no preference shares outstanding). MVS rank equally in all respects with the SVS, except that each MVS is entitled to 15 votes at any shareholders’ meeting for all matters other than the election of directors. MVS are non-redeemable and are convertible at a ratio of one-to-one for SVS. MVS and SVS have no par value.

On October 16, 2013, the Co-Founders completed their previously announced secondary offering, as further described in note 18.

<i>SHARE CAPITAL</i>	3 MONTHS ENDED			
	SEP 30, 2013		SEP 30, 2012	
	NUMBER OF SHARES (000's)	STATED VALUE	NUMBER OF SHARES (000's)	STATED VALUE
BEGINNING OF PERIOD				
Multiple Voting Shares	12,612		12,612	
Subordinate Voting Shares	16,817		16,677	
	<u>29,429</u>	<u>\$11,706</u>	<u>29,289</u>	<u>\$8,757</u>
ACTIVITY DURING THE PERIOD				
Convert from Multiple Voting Shares	(2,048)		—	
Exercise of stock options	67	1,080	—	—
Convert to Subordinate Voting Shares	2,048		—	
	<u>67</u>	<u>\$ 1,080</u>	<u>—</u>	<u>—</u>
END OF THE PERIOD				
Multiple Voting Shares	10,564		12,612	
Subordinate Voting Shares	18,932		16,677	
	<u>29,496</u>	<u>\$12,786</u>	<u>29,289</u>	<u>\$8,757</u>

7. TREASURY STOCK

In relation to the Company's RSU plan, as described in note 8, the Company may acquire shares in the open market which will be held in the Trust for the benefit of the RSU participants to hedge the potential economic exposure that could arise on outstanding RSUs due to fluctuation in the Company's stock price. These shares are recorded as treasury stock and are not considered to be outstanding for basic and diluted earnings per share calculations. During the three months ended September 30, 2013, \$11,400 (September 30, 2012 - \$688) of treasury stock was acquired by the Trust during the secondary offering of the Company's Subordinated Voting Shares, which settled in the second quarter of fiscal 2014. The obligation of \$11,400 was included in accounts payable and accrued liabilities as at September 30, 2013 (June 30, 2013 - \$nil).

As at September 30, 2013, the Company held approximately 802,000 shares (June 30, 2013 – 325,000 shares) of which 202,000 were held in the Trust and 600,000 shares were acquired through its participation in the secondary offering, as described above, which settled in the second quarter of fiscal 2014.

	3 MONTHS ENDED			
	SEP 30, 2013		SEP 30, 2012	
	NUMBER OF SHARES (000's)	STATED VALUE	NUMBER OF SHARES (000's)	STATED VALUE
TREASURY STOCK				
Balance – Beginning of period	325	\$ 5,166	406	\$6,603
Treasury stock purchased	600	11,400	47	688
Treasury stock released	(123)	(1,954)	(5)	(81)
Balance – End of period	<u>802</u>	<u>\$14,612</u>	<u>448</u>	<u>\$ 7,210</u>

8. STOCK-BASED COMPENSATION PLANS

The Company has the following stock-based compensation plans: the Stock Option, DSU, RSU, Employee Subordinate Voting Share Ownership plans and the Executive Loan Program. These are described in detail below.

Stock Option Plan

The Company's Stock Option plan was established in May 2006. The exercise price of a stock option is determined as at the close of the business day before the stock option grant is approved by the Board of Directors. The expiry date of the stock options is seven years from the date of the grant. Stock options become exercisable over time at the rate of 20% of the total stock options granted on each anniversary of the grant date. The regular use of employee stock options as an element of annual compensation was discontinued in fiscal 2011, with the use of options limited to special circumstances only. During the three months ended September 30, 2013, the Company did not issue any stock options to participants (September 30, 2012 – nil).

The expense related to stock options outstanding that has been included in salaries and benefits expense for employee stock options and general and administrative expense for director stock options during the three months ended September 30, 2013, was a total of \$620 (September 30, 2012 – \$259). During the three months ended September 30, 2013, there were no reversals for stock option expense recognized in

prior periods for options that were forfeited due to employee or director departures in the quarter (September 30, 2012 – \$54). During the three months ended September 30, 2013, 183,000 stock options were exercised (September 30, 2012 – nil).

STOCK OPTIONS	3 MONTHS ENDED			
	SEP 30, 2013		SEP 30, 2012	
	OPTIONS (000's)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (000's)	WEIGHTED AVERAGE EXERCISE PRICE
Balance – Beginning of period	1,321	\$ 18.52	1,991	\$ 18.10
Options exercised	(183)	15.56	—	—
Options forfeited	—	—	(54)	20.34
Balance – End of period	<u>1,138</u>	<u>\$18.99</u>	<u>1,937</u>	<u>\$18.03</u>

RANGE OF EXERCISE PRICES	AS AT SEP 30, 2013					
	NUMBER OUTSTANDING (000's)	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE		
		WEIGHTED AVERAGE REMAINING CONTRACTUAL YEARS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE (000's)	WEIGHTED AVERAGE EXERCISE PRICE	
\$10.00 – \$17.99	553	2.97	\$ 15.20	373	\$ 15.08	
\$18.00 – \$25.99	440	3.03	20.63	334	20.61	
\$26.00 – \$33.99	<u>145</u>	<u>1.01</u>	<u>28.50</u>	<u>145</u>	<u>28.50</u>	
	<u>1,138</u>	2.74	\$ 18.99	<u>852</u>	\$ 19.53	

RANGE OF EXERCISE PRICES	AS AT JUN 30, 2013					
	NUMBER OUTSTANDING (000's)	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE		
		WEIGHTED AVERAGE REMAINING CONTRACTUAL YEARS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE (000's)	WEIGHTED AVERAGE EXERCISE PRICE	
\$10.00 – \$17.99	736	2.77	\$ 15.29	502	\$ 15.20	
\$18.00 – \$25.99	440	3.28	20.63	264	20.63	
\$26.00 – \$33.99	<u>145</u>	<u>1.27</u>	<u>28.50</u>	<u>145</u>	<u>28.50</u>	
	<u>1,321</u>	2.78	\$ 18.52	<u>911</u>	\$ 18.89	

Deferred Share Unit Plan

The Company's DSU plan was established in September 2006 and represents notional share units granted to the Company's Board of Directors in order to enhance the Company's ability to attract and retain talented individuals to serve as independent members of the Board of Directors, and to promote a significant alignment of the interests of the independent directors and the interests of the shareholders of the Company by providing the independent directors with a long-term incentive tied to the long-term performance of the SVS. Members of the Company's Board of Directors are required to take 50% of their annual retainers and other fees in the form of DSUs. The number of DSUs received is determined by the market value of the Company's SVS on each director's fee payment date. The DSUs are fully vested on the grant date. DSUs allocated under this plan are adjusted to reflect dividends, and the value of DSUs are marked-to-market. DSUs cannot be redeemed for cash or SVS (purchased on the open market) until the holder is no longer a director of the Company. There were no payments under this DSU plan during the three months ended September 30, 2013 (September 30, 2012 – \$nil).

The Company recorded a DSU expense of \$141 during the three months ended September 30, 2013, including the mark-to-market adjustment (September 30, 2012 – \$159). As at September 30, 2013, the corresponding liability of \$1,677 is recognized in long-term liabilities in the Company's balance sheet (June 30, 2013 – \$1,536).

DEFERRED SHARE UNITS (000's)	3 MONTHS ENDED	
	SEP 30, 2013	SEP 30, 2012
Balance – Beginning of period	79	69
Issued during the period	<u>9</u>	<u>5</u>
Balance – End of period	<u>88</u>	<u>74</u>

Restricted Share Units

The Company's RSU plan was established in September 2010, and represents notional share units granted to employees in order to enhance the Company's ability to attract and retain talented employees and to promote a significant alignment of the interests of employees and the interests of the shareholders of the Company by providing employees with a long-term incentive tied to the long-term performance of the SVS. The number of RSUs received is determined by the market value of the Company's SVS at the time of award. RSUs allocated under this plan are adjusted to

reflect dividends-in-kind. RSUs and related RSU dividends-in-kind vest over time at the rate of one-third of the total RSUs granted on each anniversary of the original grant date. In September 2013, a special RSU plan was established to award \$5,000 in RSUs to key employees to further align their long-term interests with shareholders. RSUs allocated under this plan are adjusted to reflect dividends-in-kind. Special RSUs and related special RSU dividends-in-kind vest on the third anniversary of the original grant date.

During the three months ended September 30, 2013, the Company awarded \$11,181 (September 30, 2012 – \$1,308) in RSUs to employees, plus \$1,349 (September 30, 2012 – \$76) of RSUs granted as dividends-in-kind for the aggregate amount of dividends that would have been paid if the RSUs had been SVS. During the three months ended September 30, 2013, there were no reversals for dividend expense recognized in prior periods for dividends-in-kind that were forfeited due to employee departures in the quarter (September 30, 2012 – \$2). The expense related to RSUs outstanding that has been included in the salaries and benefits expense during the three months ended September 30, 2013, was \$874 (September 30, 2012 – \$920). During the three months ended September 30, 2013, there were no reversals for RSU amortization expense recognized in prior periods for RSUs that were forfeited due to employee departures in the quarter (September 30, 2012 – \$9).

During the three months ended September 30, 2013, \$2,742 (September 30, 2012 – \$2,532) of RSUs vested of which \$1,954 (September 30, 2012 – \$nil) were settled with treasury stock held by the Trust in the period. The balance as of September 30, 2013 of \$788 (September 30, 2012 – \$2,532) was included in accounts payable and accrued liabilities and was settled with treasury stock held by the Trust in the second quarter of fiscal 2014.

RESTRICTED SHARE UNITS (000's)	3 MONTHS ENDED	
	SEP 30, 2013	SEP 30, 2012
Balance – Beginning of period	316	403
Issued during the period	609	89
Vested during the period	(173)	(157)
Forfeited during the period	—	(1)
Balance – End of period	<u>752</u>	<u>334</u>

Employee Subordinate Voting Share Ownership Plan

Under the Company's Employee Subordinate Voting Share Ownership Plan, employees who meet the eligibility criteria can contribute up to a certain percentage of their annual gross salary by way of payroll deductions. The Company matches a certain percentage of the employee contribution amount, to a defined maximum amount. The Company's contributions, amounting to \$33 for the three months ended September 30, 2013 (September 30, 2012 – \$37), are included in the salaries and benefits expense.

Executive Loan Program

The Executive Loan Program is designed to allow the next generation of Company leadership to accumulate meaningful equity positions in the Company to further align their interests with those of the shareholders. The Company provides guarantees for full recourse loans made to eligible employees by a third party institution at market interest rates to acquire shares of the Company on the open market. The acquired shares serve as collateral against the executive loan. Where the executive loan principal outstanding exceeds the fair value of the collateral, management will assess the probability of default by the executive and other possible recourse from the executive's assets. Any corresponding liability is recognized in the Company's financial statements. As at September 30, 2013, the corresponding liability is \$nil (June 30, 2013 – \$nil).

As part of an agreement with the third party institution, the Company is required to hold a balance as restricted cash, which is a proportion of the outstanding executives' borrowings. The restricted cash balance fluctuates directly with changes in the outstanding executive loan balances and will become available upon reduction of the outstanding loan balances. As at September 30, 2013, \$1,601 of restricted cash (June 30, 2013 – \$1,577) is held in a segregated account in connection with this loan guarantee.

9. EARNINGS PER SHARE

The treasury stock method is used in the calculation of per share amounts. Basic earnings per share amounts are determined by dividing net income by the average number of shares outstanding during the period excluding shares held in the Trust, which are not considered to be outstanding in the relevant period for accounting purposes.

The following table presents the Company's basic and diluted earnings per share for the three months ended September 30:

BASIC AND DILUTED EARNINGS PER SHARE	3 MONTHS ENDED SEP 30, 2013	3 MONTHS ENDED SEP 30, 2012
Numerator:		
Net income available to shareholders – basic and diluted	\$ 8,299	\$ 5,946
Denominator (Number of shares in thousands):		
Weighted average number of shares outstanding – basic	29,134	28,880
Weighted average number of dilutive share-based compensation	431	238
Weighted average number of shares outstanding – diluted	29,565	29,118
Earnings per share		
Basic	\$ 0.29	\$ 0.21
Diluted ¹	\$ 0.28	\$ 0.20

Notes:

1. For the three months ended September 30, 2013, the computation of diluted earnings per share excluded weighted-average options outstanding of 400 (September 30, 2012 – 1,978) with a weighted-average exercise price of \$20.51 (September 30, 2012 – \$18.08) as the option price was greater than the average market price of the Company's shares. For the three months ended September 30, 2013, the computation of diluted earnings per share did not exclude any RSUs outstanding (September 30, 2012 – 89 of RSUs excluded).

10. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue operations as a going concern and to meet regulatory requirements and other contractual obligations.

The Company's capital comprises share capital, treasury stock, contributed surplus and retained earnings.

The Company's senior management team is responsible for approving the Company's capital management objectives and policies, and for overseeing the effective management of capital. The Board of Directors reviews the Company's capital plans as part of its review of strategic initiatives and at least annually in connection with the financial forecast process. In the normal course of business, the Company generates adequate operating cash flows to meet its obligations.

The Company is required to maintain a minimum working capital level of \$25 as a registration requirement under the Ontario Securities Act. Throughout the three

months ended September 30, 2013, and 2012, the Company maintained levels of working capital well in excess of the requirement.

II. INCOME TAXES

The Company's income tax expense differs from the amount that would be computed by applying the combined Canadian federal and provincial statutory income tax rate as a result of the following:

	3 MONTHS ENDED	
	SEP 30, 2013	SEP 30, 2012
Income tax provision based on statutory income tax rate, 26.50% (2012 – 26.50%)	\$3,002	\$2,154
Increase (decrease) in income taxes resulting from:		
Expenses not deductible for tax purposes	183	79
RSU dividends vested in the period	(157)	(53)
Other non-deductible items and changes in future tax rates	—	4
Income tax provision as reported, 26.73% (2012 – 26.86%)	<u>\$3,028</u>	<u>\$2,184</u>

The components of the Company's deferred income tax assets and liabilities as at September 30, 2013, and June 30, 2013, are as follows:

	AS AT	AS AT
	SEP 30, 2013	JUN 30, 2013
Deferred income tax assets		
Accrued and long term liabilities	\$ 477	\$ 473
Restricted share units	777	1,115
Restricted share units dividends-in-kind	427	226
Post-retirement obligations	<u>3,163</u>	<u>3,133</u>
Total deferred income tax assets	\$4,844	\$4,947
Deferred income tax liabilities		
Property and equipment	<u>(843)</u>	<u>(864)</u>
Total deferred income tax liabilities	\$ (843)	\$ (864)
Net deferred income tax assets	<u>\$4,001</u>	<u>\$4,083</u>

As at September 30, 2013, the Company had \$1,694 (June 30, 2013 – \$1,694) of unused capital losses realized on the disposition of security holdings, for which no benefit has been recognized in these unaudited interim financial statements.

12. SALARIES AND BENEFITS

The Company accrues for bonuses to its employees.

Included in salaries and benefits expense for the three months ended September 30, 2013, are accrued bonuses of \$2,871 (September 30, 2012 – \$2,480) and an additional amount of \$325 related to guaranteed compensation for an employee which was not allocated from the bonus pool (September 30, 2012 – \$nil). For the three months ended September 30, 2013, salaries and benefits expense includes termination payments of \$nil (September 30, 2012 – \$300). The current portion of termination payments payable are included in accounts payable and accrued liabilities while the long-term portion of termination payments payable are included in the long-term liabilities on the balance sheet.

13. BUSINESS DEVELOPMENT

The following table presents the breakdown of business development expense by nature:

	3 MONTHS ENDED	
	SEP 30, 2013	SEP 30, 2012
Donations	\$206	\$366
Marketing	324	89
Travel	<u>74</u>	<u>78</u>
	<u>\$604</u>	<u>\$533</u>

14. GENERAL AND ADMINISTRATIVE

The following table presents the breakdown of general and administrative expense by nature:

	3 MONTHS ENDED	
	SEP 30, 2013	SEP 30, 2012
Insurance	\$ 133	\$ 131
Information technology	12	1,293
Office services and telecommunications	449	551
Professional fees	12	195
Regulatory and public company fees	754	443
Sub-advisory fees and other fees	87	138
Economic research expenses	281	304
Other	75	194
	<u>\$1,803</u>	<u>\$3,249</u>

15. OCCUPANCY

The following table presents the breakdown of occupancy expense by nature:

	3 MONTHS ENDED	
	SEP 30, 2013	SEP 30, 2012
Lease for premises	\$884	\$868
Premises maintenance	41	53
	<u>\$925</u>	<u>\$921</u>

16. DIVIDENDS

The following dividends were declared and paid by the Company during the three months ended September 30, 2013:

DIVIDENDS PAID	RECORD DATE	PAYMENT DATE	CASH DIVIDEND PER SHARE	TOTAL DIVIDEND AMOUNT (\$000'S)
June 30, 2013 – regular dividend Q ₄ , 2013	September 13, 2013	September 23, 2013	\$ 0.1750	\$ 5,105
June 30, 2013 – special dividend Q ₄ , 2013	September 13, 2013	September 23, 2013	<u>1.4000</u>	<u>40,839</u>
Total Dividends Paid			<u>\$ 1.5750</u>	<u>\$45,944</u>

As part of the RSU plan, as described in note 8, the following dividends-in-kind were granted by the Company during the three months ended September 30, 2013:

DIVIDENDS IN KIND	RECORD DATE	GRANT DATE	DIVIDEND IN KIND PER SHARE	TOTAL DIVIDEND IN KIND AMOUNT (\$000'S)
June 30, 2013 – regular dividend Q ₄ , 2013	September 13, 2013	September 23, 2013	\$ 0.1750	\$ 150
June 30, 2013 – special dividend	September 13, 2013	September 23, 2013	<u>1.4000</u>	<u>1,199</u>
Total Dividends-in-Kind Granted			<u>\$ 1.5750</u>	<u>\$1,349</u>

The following dividends were declared by the Company during the three months ended September 30, 2012, and paid in the second quarter of fiscal 2013:

DIVIDENDS DECLARED	RECORD DATE	PAYMENT DATE	CASH DIVIDEND PER SHARE	TOTAL DIVIDEND AMOUNT (\$000'S)
June 30, 2012 – regular dividend Q4, 2012	October 1, 2012	October 19, 2012	\$ 0.1625	\$4,736
June 30, 2012 – special dividend	October 1, 2012	October 19, 2012	0.0600	1,749
Total Dividends Declared			<u>\$ 0.2225</u>	<u>\$6,485</u>

As part of the RSU plan, as described in note 8, the following dividends-in-kind were declared by the Company during the three months ended September 30, 2012, and granted in the second quarter of fiscal 2013:

DIVIDENDS IN KIND DECLARED	RECORD DATE	GRANT DATE	DIVIDEND IN KIND PER SHARE	TOTAL DIVIDEND IN KIND AMOUNT (\$000'S)
June 30, 2012 – regular dividend Q4, 2012	October 1, 2012	October 19, 2012	\$ 0.1625	\$ 55
June 30, 2012 – special dividend	October 1, 2012	October 19, 2012	0.0600	19
Total Dividends-in-Kind Declared			<u>\$ 0.2225</u>	<u>\$76</u>

On November 7, 2013, the Company declared a regular dividend of \$0.20 per equity share for the quarter ended September 30, 2013. This dividend will be paid on December 3, 2013, to shareholders of record at the close of business on November 20, 2013.

17. FINANCIAL INSTRUMENT RISKS

The Company's financial instruments include cash, restricted cash, accounts receivable, income taxes recoverable, accounts payable and accrued liabilities, income taxes payable and accrued bonuses, whose carrying values approximate their fair values due to their short-term nature. DSUs are marked-to-market. Financial instruments comprised of short-term investment holdings and other securities owned are recorded at fair value using quotations from independent third-party pricing sources.

Financial instruments present a number of specific risks as identified below:

Market Risk

Market risk refers to the risk that a change in the level of one or more of market prices, interest rates or foreign currency exchange rates, will result in losses. Short-term investment holdings and other securities owned are recognized at fair value and classified as held-for-trading, any changes will affect reported earnings as they occur. The maximum risk resulting from financial instruments is determined by the fair values of the financial instruments. The Company manages market risk by the daily monitoring of its securities owned and securities sold short, if any. The Company separates market risk into three categories: price risk, interest rate risk and foreign exchange risk.

(i) *Price Risk*

Price risk arises from the possibility that changes in the prices of the Company's investments will result in changes in carrying values. As at September 30, 2013, there were no investments in securities (June 30, 2013 – \$nil). Price risk also arises from the possibility that changes in the Company's stock price will result in a change in the carrying value of DSUs. Included in long-term liabilities on the balance sheet as at September 30, 2013, is \$1,677 (June 30, 2013 – \$1,536) related to DSUs. If the Company's stock price increased by 5%, this would have decreased net income before provision for income taxes by approximately \$63 (June 30, 2013 – \$58); conversely, if the Company's stock price decreased by 5%, this would have increased net income by the same amount.

In practice, the actual results may differ from this sensitivity analysis and the difference may be material.

(ii) *Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the carrying value of financial instruments. As at September 30, 2013, the Company was subject to interest risk through some of its short-term investments. The Company's sensitivity to interest rate as determined based on portfolio weighted duration was not significant as at September 30, 2013, and June 30, 2013, since almost all investments in debt securities have a term to maturity of less than a year.

(iii) *Foreign Exchange Risk*

Foreign exchange risk arises from the possibility that changes in the price of foreign currencies will result in changes in carrying value. The Company holds financial assets denominated in currencies other than the Canadian dollar. The Company is therefore exposed to foreign exchange risk, as the value of financial assets denominated in other currencies will fluctuate due to changes in foreign exchange rates. As at September 30, 2013, there were no investments in securities owned and managed by the Company denominated in U.S. dollars (June 30, 2013 – nil). A total of \$1,606 (June 30, 2013 – \$1,890) of cash and \$278 (June 30, 2013 – \$3,362) of accounts receivable were denominated in U.S. dollars. As at September 30, 2013, had the foreign exchange rate between the U.S. dollar and the Canadian dollar increased or decreased by 5%, with all other variables held constant, the increase or decrease, respectively, in net income before provision for income taxes would have amounted to approximately \$71 (June 30, 2013 – \$197).

In practice, the actual results may differ from this sensitivity analysis and the difference may be material.

Credit Risk

Credit risk arises from the potential that counterparties will fail to satisfy their obligations as they come due. The Company incurs credit risk when entering into, settling and financing various investment transactions. The Company is exposed to credit risk principally on its holdings of corporate debt securities, if any. As at September 30, 2013 and June 30, 2013, there were no corporate debt securities included in short-term investments. The Company's risk management strategy is to invest primarily in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer.

Also included in short-term investments are debt securities issued by the federal government and Canadian banks with credit ratings of AA or higher as at

September 30, 2013 and June 30, 2013. Credit risk is considered low as these instruments are held by high credit quality issuers and have terms to maturity of less than one year. As described in note 8, under our Executive Loan program, loans are made to eligible employees by a third party institution to acquire equity positions in our Company. The Company is exposed to credit risk on its guarantee for full recourse of these loans. Credit risk is considered low as shares acquired by the eligible employees serve as collateral against the executive loan and as at September 30, 2013 and June 30, 2013, the fair value of the collateral exceeded the executive loan amounts. If the executive loan principal outstanding exceeds the fair value of the collateral, management will assess the probability of default by the executive and other possible recourse from the executive's assets. As part of an agreement with the third party institution, the Company is required to hold a balance as restricted cash, which is a proportion of the outstanding executives' borrowings. The restricted cash balance was held at a Canadian bank with a credit rating of AA- as at September 30, 2013, and June 30, 2013. As a result credit risk is considered minimal.

Credit risk is also managed by dealing with counterparties the Company believes to be creditworthy by actively monitoring credit exposure and the financial health of the counterparties. The majority of accounts receivable relates to Base Management Fees and Performance Fees receivable from the pooled fund vehicles and segregated accounts managed by the Company, which are current.

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due. The current assets reflected in the balance sheets are highly liquid. The majority of the investments held by the Company are readily marketable and are recorded at their fair values. Restricted cash balances are held in relation to any obligation that may arise from the Executive Loan Program, as described in note 8, and for the post-retirement obligation, as described in note 5. Financial liabilities as at September 30, 2013, totaled \$19,964 (June 30, 2013 – \$29,716), and included accounts payable and accrued liabilities (excluding deferred revenue), income taxes payable and accrued bonuses, with all amounts due within one year. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they come due, as well as ensuring

adequate funds exist to support business strategies and operations growth. The Company manages liquidity risk by monitoring cash balances on a daily basis.

Concentration Risk

Concentration risk arises from the possibility that changes in market factors will affect the carrying value of financial instruments similarly. The Company is exposed to concentration risk principally on its holdings of debt and equity securities. As at September 30, 2013, and June 30, 2013, the Company held debt securities issued by the federal government and Canadian banks. The Company has accepted the concentration risk associated with its holdings, as there is minimal credit risk associated with these debt securities.

18. SUBSEQUENT EVENTS

On October 16, 2013, the Co-Founders completed their previously announced secondary offering (the “Offering”) of 6,400,000 Subordinate Voting Shares. Concurrent with the closing of the Offering, all Multiple Voting Shares were converted to Subordinate Voting Shares on a one-for-one basis, leaving the Company with only one class of issued and outstanding equity shares, and entitling the holders thereof to vote on all matters requiring shareholder approval. Immediately following the conversion, the Voting Control Agreement dated May 26, 2006 was terminated.

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*Chairman of the Compensation
Nominating and
Governance Committee
Audit Committee*

GERALD SHEFF

*Co-Founder & Chairman
Gluskin Sheff*

DONALD CARTY

*Compensation, Nominating and
Governance Committee*

HERBERT SOLWAY

Lead Independent Director

JEREMY FREEDMAN

*President & Chief Executive Officer
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PIERRE-ANDRÉ THEMENS

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*Co-Founder & Vice-Chairman
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